

POVERTY

INTRODUCTION TO INTERNATIONAL DEVELOPMENT

FALL 2014

The next two weeks...

The first three classes we introduced the concept of development, and different ways of understanding what that meant

On Monday, we explored one way of measuring development (with its inherent assumptions about what development means): Growth and GDP/capita

Starting today, and for the next 5 classes, we will be examining different ways of measuring development, each with its own inherent assumptions, and all critical of growth and GDP/capita as measures of development

Agenda

1. A tough experiment
2. A major drawback of GDP and GDP/capita
3. One alternative: poverty rates as a measure of development
4. The lives of the poor

Before you are born...



You are given two options: be born and live in one of two countries



You know nothing about these countries except...

1. You will earn the **mean or average income** for that country
2. The GDP/capita in each country is:

	GDP/Capita
Angola	\$5,668
Indonesia	\$3,475

QUESTION: WHERE WOULD YOU CHOOSE TO BE BORN?

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You know nothing about these countries except...

1. You will earn the **median income** for that country

2. The GDP/capita in each country is:

	GDP/Capita	% Population poor (under \$2 per day)
Angola	\$5,668	67.4
Indonesia	\$3,475	43.3

QUESTION: WHERE WOULD YOU CHOOSE TO BE BORN?

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Drawback of GDP and GDP/capita: silent on distribution of income



Drawback of GDP and GDP/capita: no indication of how the worse-off are fairing



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Two meanings of poverty

Absolute measurements of poverty (focus on this today)

- A measurement against a benchmark (e.g. food costs, caloric intake)
- Allows comparisons across countries

Relative measurements of poverty (come back to this in next few classes)

- Measured against societal standards – varies across countries, regions, demographic groups, time
- Context-specific
- Relates to ideas of social exclusion, capabilities

Absolute poverty: country-wide poverty lines

Varying intensity of poverty

- Extreme: cannot meet basic needs for survival
- Moderate: can only just meet their basic needs

World Bank has developed two benchmarks which are widely used to measure poverty

- Extreme poverty: \$1.25 per day
- Moderate poverty: \$2 per day

The World Bank and individual countries use surveys of consumption to determine how much households spend

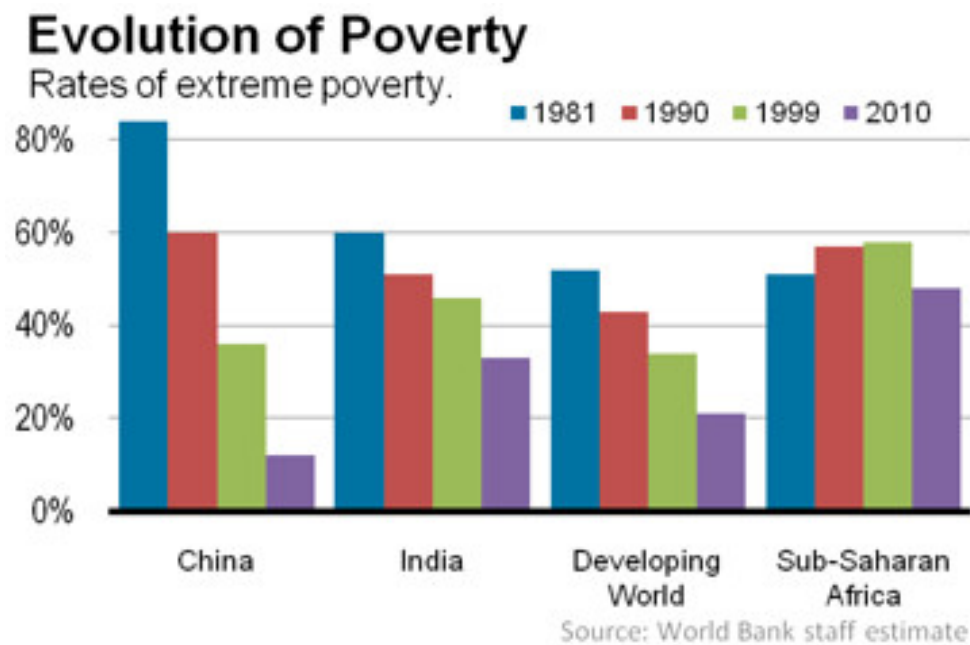
Often look at poverty **RATES** (% of the population living under the poverty line), but also at total numbers

Poverty across selected countries (most recent rates)

	% of population living under \$2.00 per day	% of population living under \$1.25 per day
Argentina	1.87	0.9
Egypt	15.4	1.6
South Africa	10.6	2.3
China	27.2	11.8
Ethiopia	66.0	30.6
India	68.8	32.7

Source: World Bank,
2014

Absolute poverty trends by region (rates)

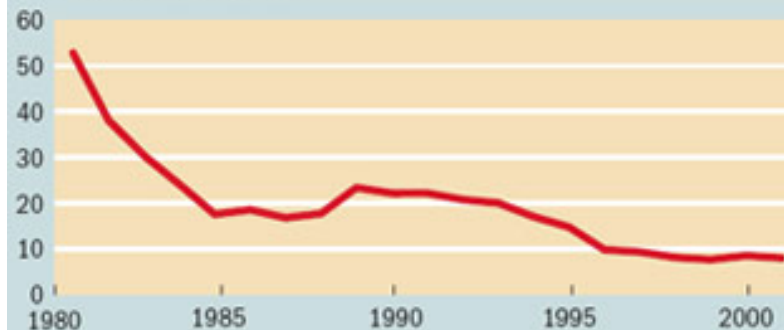


The remarkable Chinese experience in poverty reduction (rates)

Uneven progress

The percentage of the population in China living below the poverty line fell more in some periods than others during 1981-2001.

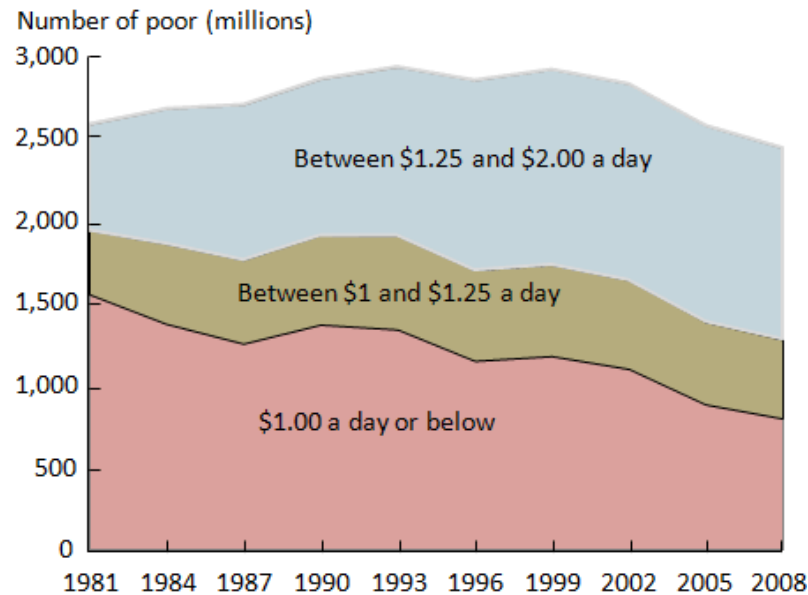
(percent below poverty line)



Source: Ravallion and Chen, 2004.

Absolute poverty trends around the world (total number)

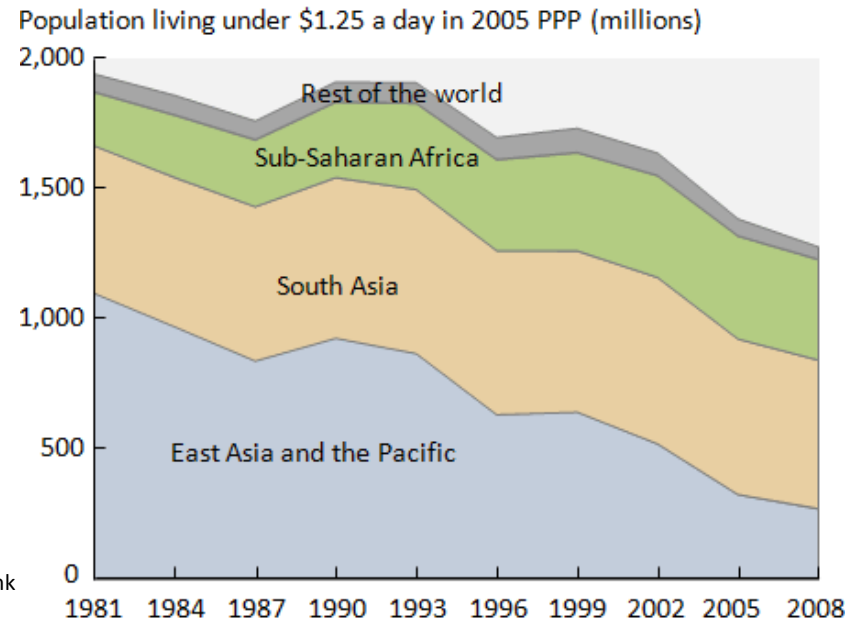
Number of poor in poverty, 1981-2008



Source: World Bank

Absolute poverty trends by region (total number)

Number of poor by region, 1981-2008



Source: World Bank

Economic growth=poverty reduction?



Economic growth=poverty reduction?

“Economic growth is the most powerful instrument for reducing poverty and improving the quality of life in developing countries... But under different conditions, similar rates of growth can have very different effects on poverty... The extent to which growth reduces poverty depends on the degree to which the poor participate in the growth process and share in its proceeds” (DFID)

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Hands-on activity: the economic lives of the poor

In the Duflo and Banerjee reading, was there anything that you found surprising about how the poor live? If so, why did you find it surprising?

Why do you think consumption patterns vary so widely across the poor of different countries?

- Describe how they vary
- Give your hypotheses

How does this observation about the varied patterns of consumption of the poor challenge the main theoretical underpinnings of the concept of extreme and moderate poverty lines? What drawbacks does it suggest about using these lines as measures of poverty?

Hands-on activity: the economic lives of the poor

What do you think is the most concerning tradeoff the poor make with regard to their consumption choices?

Assume that you are the head of a major international NGO focused on promoting economic development. Given what you read about how the poor earn their money, what program would you propose to promote higher earnings among them?

Next class...

What are different ways of measuring income inequality?

To what extent do you think the Bolivian experience under Evo Morales is replicable in other contexts?

But the total number of poor still large (total number)

The numerable poor
Number living below poverty line
\$ per day, 2005 purchasing-power parity, m

	\$1.00	\$1.25
East Asia and Pacific <i>of which China</i>	179.8 106.1	336.9 207.7
Latin America and Caribbean	27.6	45.1
South Asia <i>of which India</i>	350.3 266.5	595.5 455.8
Sub-Saharan Africa	299.1	384.2
Other	22.2	37.9
Total	879.0	1,399.6

Source: Shaohua Chen and Martin Ravallion